

State of the County 2004 ***Windows of Opportunity...***

Smaller in Size, Broader in Perspective

The year 2004 is the 37th year of the executive form of government in Dutchess County. It is also my 13th year to serve as Dutchess County Executive with the privilege and honor once again to deliver the State of the County Address. This year as I deliver this message to you and to the community, the format may change slightly, but as always the overall intent is to weave some of our past, present and future activities to tell the Dutchess County story, and to help set the stage for the very important work we will do together in 2004. And I want you to know I am very excited to be here and for this privilege.

This 37th year is an historic one for Dutchess County government because a major change has occurred — the significant reduction in the size of the County Legislature from 35 to 25 representatives. Seventeen experienced legislators who were here last year are no longer here. Seven of you here today were not last year. Ten of you represent more than one municipality. Some of you represent portions of three and even four separate municipalities. Over the past 12 years, I believe this government's strength and resilience, as well as our successes, have resulted mostly from our ability to recognize *windows of opportunity* and take advantage of them. Often, we have created and opened our own windows. It is my belief the change in the size of this representative body creates another such *window of opportunity*.

We all know county issues do not necessarily coincide with municipal borders. Just think about it for a minute. Our existing and planned rail trails in the eastern Harlem Valley, in central Dutchess, and those going north/south in and out of our Hudson River communities, just like our highways, actually connect towns and villages. Concentrations of our best farmland straddle town lines. The Wappinger Creek Watershed Program, organized by the Soil and Water Conservation District and the Environmental Management Council, includes participation of 13 separate communities. Through mutual aid, local volunteer fire departments are routinely called to assist neighboring departments. And while our municipalities have their own zoning and subdivision regulations, 23 of them so far have voted to accept common county-wide design and

development principles through the *Greenway Compact* process without compromising their independence and self-rule.

Increasingly, the Legislature and the Executive have been called to take a synoptic or more common and, therefore, broader view of problems. While we continue to work cooperatively with our localities to solve problems, county government, that is you and I, cannot afford to get caught up in thinking that may be limited by local geopolitical borders.

Joining Hands to Solve Problems: Some Examples

In the past 12 years, we have been seeking new, more effective ways to solve community problems. No, we have not seen an end to home rule, nor is that something we want. Local participation on our municipal boards is a vital component of representative government. But more and more, in our active and mobile society, we are being challenged to solve community issues with our governmental inventiveness; with our capacity to combine public and private sector initiatives; with tireless efforts to combine resources of State, Federal and local governments; by more effectively calling on the vast and talented non-profit community with whom we now partner for services of almost \$25 million annually; and finally, by designing new organizational structures — from ad hoc problem solving committees to function-oriented authorities.

Let me give some examples. In last year's State of the County address, I heralded our extensive efforts in Red Hook to provide affordable senior housing on a former brownfields site that the County, because of a tax default, has also been burdened with for taxes since 1991. Our county work on this effort continues and involves four levels of government, two State agencies, town and village government, a local housing committee, a variety of private consultants and a private developer. It has been an enormous task, requiring the vision, tenacity and patience of our County and local leaders. I congratulate you for approving my request for the site cleanup through your vote in December and look forward to further progress on this project in 2004.

Another example. In recent years, we have taken giant strides to manage growth and be smarter

in our land use decisions. In addition to our *Greenway* planning initiative, we have created an implementing mechanism through our Dutchess County Partnership for Manageable Growth program. Imbedded in this initiative is the concept of progress through partnerships. We provide significant resources for farm development plans, economic appraisals, farmland protection through purchase of easements, recreational land acquisitions and utility system and infrastructure study and implementation. But we look for State, non-profit and local partners to help complete our deal. As a result, the County is recognized as a leader in New York State and, to date, has allocated nearly \$2.4 million for open space protection, now totaling 1,260 acres in six towns, leveraging and attracting \$4.3 million of alternative resources. And again, I call on local communities to join the County vision through local funding initiatives, similar to the determined efforts of Red Hook's Town Board, to aggressively manage the growth we are witnessing in Dutchess County.

In my 2002 State of the County Address, I challenged all of us to protect at least 12,000 acres of farmland by 2010. Last week, a \$1.2 million State award was designated to help save a complex of three farms in the Town of North East. With the County's anticipated funding partnership in this project, this will be an additional 925 acres of protected farmland, for a cumulative total of 2,185 acres. With active local governmental participation, I am confident my challenge can be met, even exceeded. My administration is currently meeting with local leaders in East Fishkill, Beekman, Pleasant Valley, and other fast-growing communities to encourage potential funding partnerships that will serve to protect our best remaining farmland and open space resources.

We have a window of opportunity before too much of our land is consumed by suburban growth. **We can welcome growth and encourage business opportunity, as good jobs for the families of our county continue to be a foundation of our successes. But the welcome need not be at the expense of maintaining our prized rural and environmental qualities.**

That is why I request your support for the \$2 million bond resolution that I have proposed to you today. This money will be reallocated to several worthy projects. Among them are the protection of the spectacular Stone Church property in Dover in Chairman Kendall's district and the purchase of development rights on the Smith Farm in North East in Legislator Cooper's district.



New Challenge and Initiative

As legislators of the “greater” community, you are being asked to think big, to devise new solutions, and to economize through new cooperative efforts. There are times when our residents expect the County to be an agent of change because we are often in an ideal position to solve problems — not too remote, but not tied to local limitations.

Health and Safety

Our close proximity to New York City and the large number of residents who commute to work in Westchester and New York compel us to prepare for public safety and homeland security issues that could be tested locally in a major manmade or natural event. In 2004 we will further enhance our preparedness by working regionally with Hudson Valley Health Departments to develop a regional electronic surveillance system with our local hospitals. With \$50,000 Phase II funding from the U.S. Department of Health and Human Services, we will continue our collaboration with the Northern Metropolitan Health Care Foundation, local hospitals and the Red Cross to establish a local *Medical Reserve Corps*. Dutchess was one of only 42 jurisdictions nationwide to be awarded a grant to recruit a network of trained and credentialed volunteers to provide assistance with medical care, special needs care, as well as non-technical needs such as child care and transportation in the event of any man made or natural disaster.

In 2004 we will continue to enhance our ability to respond to criminal activity and emergencies in our community. First, we will complete our initiative to receive and respond to all 911

cellular calls, and secondly we will also implement a 2nd police frequency so police can effectively communicate without disruptions. Third, to increase our police response time and achieve greater efficiency, we expect to deploy an Automatic Vehicle Locator System (AVL) so county dispatchers can dispatch the closest available police unit to an incident.

Just recently a local newspaper reported on the excessive costs and high recidivism of youth remanded to institutions. In an effort to reduce youth placements in institutions in 2003 we initiated an exciting new assessment tool, the YASI, (*Youth Assessment and Screening Instrument*), for the juvenile probation population. With this tool, which is now used both by Probation and Youth Bureau staff, our ability to predict criminal/delinquent behavior, match levels of service to that risk and target higher risk individuals has been significantly enhanced. This instrument is already proving to be of great benefit in terms of more successful outcomes for youth and families. That's why our PINS (Persons in Need of Supervision) placements have decreased by 55%, from 60 in 2002 to 27 in 2003. In 2004 a similar tool will be fully implemented at Probation for our adult probation population.

There are so many ways County government interacts in the health of our community. In 2004, because you acted on my proposal, an additional \$350,000 will be added to the \$1.6 million already allocated in the past three years to the *Children's Health Initiative*, our comprehensive plan for Youth Tobacco Use Prevention under the auspices of the Children's Services Council.

Protecting our environment and protecting our residents' health is often one and the same. Too often, petroleum products leaking from bulk storage facilities have contaminated the wells providing drinking water for our citizens. Residents with private wells often feel helpless not knowing whether their water is clean and safe to drink. In 2003, I asked the Board of Health to initiate a comprehensive analysis of the issue and make recommendations to the County Executive and the Legislature. While improvements in tank construction requirements and the elimination of the additive MTBE may reduce future occurrences of contamination, today I have issued an Executive Order directing the Dutchess County Office of Consumer Affairs to enhance its oversight of retail gasoline storage facilities to include a review of tank testing records and to

refer violations to the NYS DEC for enforcement action. While we cannot assume the full obligations of the NYS DEC who are mandated to perform this function, we can be an additional set of eyes.

In 2002 we contracted with *Center for Government Research* to develop options to improve the Medical Examiners Program. One of the options recommended is that the County builds its own morgue facility rather than rely on the undersized morgues at St. Francis and Vassar Hospitals. Further discussions with both hospitals concluded neither was able to commit additional space or financial resources for morgue modernization and expansion. This year we will offer alternatives for your consideration that will include an option to establish a *County Forensic Center* which would include facilities for various programs for victims of domestic violence, sexual assault, and adult and child abuse. The forensic center, combined with a long-needed morgue will give the County and Dr. Reiber, our Medical Examiner, a state-of-the-art facility to advance the work of our health and law enforcement communities.

We are working with the Institute of Ecosystem Studies to complete forest mapping and analysis, using our GIS system to better understand the dynamics of Lyme disease. Our Departments of Planning & Development and Health are currently mapping forest lands in northern Dutchess to determine a ratio of forest edge to forest area and measure the protective capacity of forest lands which harbor the small mammals that help spread Lyme disease. This work will help us design ways to limit human interaction with the carriers.

Housing

In 2003, three notable housing projects the County was involved in were completed. Fifty-four units of housing were created in Beacon at the Meadow Ridge project, the beautiful 14-unit Garden Street project was completed in Poughkeepsie and *River Haven's Traditional Housing Project* for runaway and homeless youth added another ten units. In 2004 we expect significant construction on Poughkeepsie's Main Street, 90 new units on the City's 300 and 400 blocks --- another project where the County is a principal partner and that I spoke to you about in my 2002 State of the County Address.

A strong, balanced economy is one which offers personal choices and opportunities. None of the opportunities are more important than the chance to live in a safe, attractive home and neighborhood. All of us in Dutchess County benefit from being inclusive and diverse, from our desire to see adequate housing supply for all income groups so that nurses, teachers, daycare workers and store clerks can afford to live close to work. These members of our community help make our lives better. So we need to be sure to reciprocate, by seeing that newly constructed homes and apartments—let's call it workforce housing—are being constructed as surely and regularly as the more expensive homes that are being constructed all over the county.

I have asked numerous community organizations to participate in a *Workforce Housing Coalition* to address the housing needs of our workforce. Thanks to one of our great community leaders, the *Dyson Foundation* has responded to my invitation and has joined with Dutchess County in establishing and helping to fund this three-year initiative. Coalition representation will include local school districts, local government, builders, realtors, bankers and nonprofit providers. I am confident this coalition will create specific techniques to increase the housing supply for our workforce. I am hopeful our local elected officials believe as I do that we cannot sit by idly while the young adult population of this county is forced to look outside our borders for a place to live.

Community Development

Viewing the greater community of Dutchess, I will ask for your help and involvement in a variety of community projects. In addition to open space projects, we can contemplate action on the *Rivers and Estuaries Center*, a project that with the active and assertive work of county and city government leadership and community leaders was successfully recruited to Beacon.

The Center will soon open an office in downtown Beacon. Plans are now being completed to reconstruct an operational building on Dennings Point, the principal location of the Rivers and Estuaries Campus in Beacon. At Chairman Kendall's suggestion, the County has pledged

\$750,000 in support of this effort, and my administration continues to work with City and State officials toward making this decision a reality.

I have made earlier announcements of projects that will improve the quality of life in Dutchess County where we have had principal leadership roles. The Industrial Development Agency along with other funding sources from valued, local foundations are preparing to support Phase I



construction of a community *Rowing Center* south of the Marist Campus riverfront on Vassar College property. Managed by the Hudson River

Rowers Association, this boathouse will initially house the longboat fleet of five area high schools. This will create an exceptional window of opportunity as a destination site for young athletes and visitors from across the northeast.

Work continues on the Poughkeepsie to East Fishkill *Central Dutchess water pipeline*. Success is dependent upon the readiness of state officials and concluding contractual details among the involved municipalities, IBM and the Water and Wastewater Authority.

We continue to work with village and town officials in Wappinger in the hope of easing traffic pressure at the Myers Corners Road and New Hackensack intersections with Route 9. I have asked the Departments of Public Works and Planning & Development to be in regular contact with local officials to establish routing and financing alternatives for constructing a service road between Myers Corners Road and New Hackensack Road.

Institutional Changes

Our governmental capacity must keep pace with the problem-solving demands being placed on our government. That is why the County has contracted with CGR (Center for Governmental Research, Inc.), a non-profit center for objective policy analysis and pragmatic change, to evaluate the efficiency and effectiveness of our health and human service delivery capacity. As

some of you may remember, I asked the heads of our health and human service departments to form an internal work team, the Human Services Task Force to work closely with CGR to develop the best possible product of this year long effort. In the Fall, recommendations are expected to improve cross-departmental performance, streamline the decision-making process, foster more collaborative problem solving within County government and provide the Executive and Legislative branches with indicators of success for our ongoing work. As a new Legislature, you soon will be involved in profound discussions on new ways of conducting our business.

In October 2003 we launched *Dutchess County Online*, (www.dutchessny.gov) our redesigned and greatly expanded web site, which will be an integral part of our effort to improve and expand Internet-based services to our citizens, businesses and local governments. We plan to continue our commitment to eGovernment and provide a broad range of on-line services in the future. We have expanded the use of the County's *Geographic Information Systems* (GIS) while at the same time expanding services to municipalities. The county will continue to work with municipalities in 2004 through a collaborative grant opportunity with NYS to fund computer equipment and high-speed access for GIS. Another top priority for 2004 will be replacing our aging and outdated financial management and criminal justice computer systems. The new systems are needed to keep pace with our new visions and add efficiencies and higher productivity to nearly 1000 County staff that depend on these systems to conduct their business.

This year, we will proceed with plans for an *Eastern Dutchess Government Center*. Your initial agreement to develop a service center on the former Infirmary site is actively being pursued. We are updating departmental space requirements. Cost estimates are being updated and the project will continue toward implementation.

In order to pay for new and expanded programs and capital projects, our fiscal house must be in order and our economic development action plan must remain sound. In October, we sponsored another *Economic Forum*, hosted by Marist College, to gauge the state of our local economy, solicit ideas from the community, and update our current economic development strategies. Ideas ranged from creating more complete tourism packages to better use of Geographic

Information Systems for business site selection. Many ideas are already incorporated in activities of the Empire Zone, Workforce Investment Board, Economic Development Corporation, and the Water and Wastewater Authority.

Our economy is strong and dynamic, leading to a better quality of life for the families of our County! Our unemployment rate has dropped to 3.7%. Just Friday, *The Poughkeepsie Journal* reported Dutchess County with 2,600 more jobs in the December 2003 report from the State Department of Labor. You have heard the *Milken Institute's* ranking of Dutchess County as being first for economic growth in New York State. Released in mid 2003, the *Milken* report also ranked Dutchess 34th nationally in job growth and 5th in growth in salaries.

A principal method for sustaining our economic activity has been the *Empire Zone*, perhaps the most successful zone in New York State. The zone has certified 319 businesses in nine years, ushering in almost 5,000 new jobs and an impressive \$3.5 billion of economic activity. We have grown our zone locations from three to eleven municipalities. In February, a Local Law will be laid on your desks to revise the current Zone boundaries and it will add Pawling, Legislator Kelly's district, as the 12th municipality in the county with zone property. I look forward to your support for that local law.

Our Dutchess County's *Workforce Investment Board* (WIB) has made application for \$2.5 million for a technical training skills grant through the United States Department of Labor. If granted, the DCWIB would administer these funds over a three-year period. This is a collaborative grant request with IBM, Philips Semiconductor, Dorsey Metrology and Schott-Lithotec to train 575 high skills persons, and would represent a huge infusion of training dollars into our IT and Manufacturing industry.

The County has been active in setting the groundwork for sustained economic development. For example, we help put the pieces in place for a new train station or transit-oriented development in Beacon. We assist through the IDA in the funding of a new *Hudson River Rowing Center* in Poughkeepsie or, through the *Partnership for Manageable Growth*, in funding the acquisition of

the remarkable Greystone/Carnwath property in Wappinger by matching local contributions with our open space funds. Our economic support shows through our efforts to enhance the value of properties such as the Perx brownfield property cleanup that Legislator Molinaro is helping us champion, or in the disposition of the St. Andrews property in Hyde Park. I have spoken to your Chairman about St. Andrews and look forward to the opportunity in the near future to discuss with you how this property may become a prime economic generator in the Town of Hyde Park.

You can feel the strength of our economy in every corner of Dutchess County. Think of the new development along Poughkeepsie's Main Street, the activity by Allan Shope at the former Wassaic State property in Amenia, the excitement in Red Hook at Bard's Fisher Hall, the new restaurants and shops in Arlington and Wappinger Falls, and Beacon's cultural and artistic renaissance. There is optimism in our local business activities that reflects our enhanced quality of life.

The County government and its principal economic development partners, the Economic Development Corporation, IDA, WIB and our Chambers of Commerce develop strategies and annual work plans that respond to our changing economic circumstances. The evidence has shown some of our best opportunities occur in those communities, which take a similarly organized and persistent approach to job creation and maintaining a strong diverse economic base.

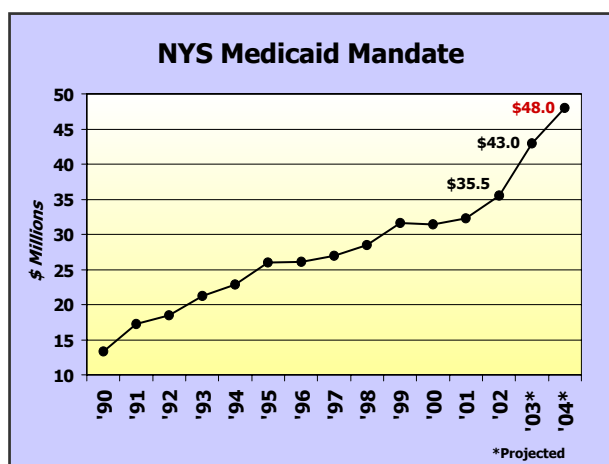
County Finances: Our Fiscal Stewardship and Continuing Challenges

Over recent years and throughout New York State, county budgets have contained significant property tax increases, sales tax increases, increases in pension costs and health insurance, layoffs, program reductions, increases in fees, reduced state aid and reductions in reserve funds. The skyrocketing costs for the New York State Medicaid program and other Albany-imposed mandates continue to remain in the forefront of county fiscal challenges, driving county budgets across the state and forcing local taxpayers to bear the burden of double-digit property tax increases.

Although together we have worked diligently over recent years to maintain a position of fiscal strength so we would be able to weather difficult and challenging economic times, 2003 was an extremely difficult year financially for Dutchess County as well. 2004 will be more of the same.

A significant cost to the county this year is the Albany mandated increase in assigned counsel rates for private attorneys who handle cases in which our Public Defender's Office has a conflict of interest. Effective January 1, 2004 the rates for criminal cases will rise significantly resulting in a projected increase of \$150,000. Although the state law that increased the rates also created a \$64 million indigent legal services fund, most county officials agree the fund will not cover the entire cost of the higher rates. This year the administration will form a task team to develop creative solutions for reducing this \$1.5 million annual cost, and I am asking them to include the possibility of creating a Conflict Defender's Office.

And then there is Medicaid. We are all too familiar with the enormous overriding impact this



one state mandate has on our county budget, and therefore, our county property taxpayers. The cost to Dutchess County residents for the Medicaid program increased \$7.5 million in 2003 over 2002 requiring a \$2 million draw down of our modest fund balance. Medicaid costs are projected to increase at least another \$5 million in 2004 to a total of \$48 million. To put it in perspective, the state is charging

Dutchess County government \$132,000 every day for this one state-mandated program.

County governments have absolutely no control over Medicaid costs. Washington and Albany make all the decisions and you have to pay the bill. Medicaid program enhancements enacted in Albany in recent years include 11 major enhancements since 1999, including five since September 11, 2001. So let's be candid: it is not just the inflationary growth of pharmaceuticals

and health services, but the conscious decisions and specific votes of our local State Senators and Assemblymen that are responsible for these added new costs to the county budget.

County officials from around the state led by the New York Association of Counties (NYSAC) are aggressively lobbying Albany for Medicaid reform. In fact, earlier this month just days prior to the Governor's State of the State address, county executives and county legislative leaders from around New York State participated in news conferences to draw attention to this issue hoping to convince the Governor to make Medicaid relief a priority in his budget. I want to thank Legislators Forman, Swartz, and Cooper for joining me at one of them.

Recommendations recently released by the Governor's Health Care Reform Task Force and proposed by the Governor in his 2004 budget message are a step in the right direction but appear to fall short of the counties' call for an immediate cap on Medicaid costs. Albany has been passing on unfunded mandates to local governments for far too long – significant Medicaid reform simply cannot wait any longer. The Governor's proposal to begin the State assumption of long-term care costs could save us \$800,000 this year—but our costs this year are skyrocketing by the \$5 million I noted earlier. The window of opportunity for reform is open more now than it has ever been. That is why we will continue to aggressively lobby our representatives in Albany until counties see serious Medicaid reform and taxpayer relief.

That is also why tax bills sent out to Dutchess County homeowners reflect the Medicaid share of their tax bill broken out separately at a startling 81 cents of each dollar of their property tax bill. This step will emphasize to all of our residents there must be a ground swell for significant change sending a unified message to Albany. The support of this Legislature was critical in taking this step to better educate and inform our local taxpayers of Medicaid's local costs.

Pension costs have leaped over \$10 million since 2002. The 2004 projected cost for the County's annual pension contribution is \$11.4 million, an increase of \$7.2 million over 2003. The increased costs are a direct result of Albany enacted pension benefit enhancements as well

as huge investment losses incurred by the pension system during the stock market plunges of 2000-2002.

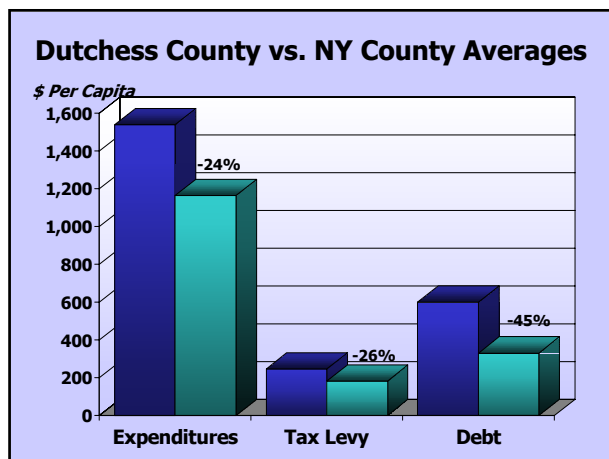
Under the Governor's budget plan, the pension contribution rate for counties would increase from the amount paid in 2003 of 4.5% of payroll to 6.5% for 2004 instead of the 12% for 2004 proposed by the New York State Comptroller. If enacted, these pension reforms could give counties better information to more accurately project future pension costs and avoid significant and unexpected increases in the future, however, the NYS Comptroller is already indicating the Governor's proposal is unconstitutional. Again, meaningful State pension reform cannot wait any longer.

Speaking of the proposed State budget—preliminary analysis suggests reductions in State funds for public health, the college, senior citizens, children's services, probation and other impacts could have a loss to the County budget of over \$3 million—and yes, that's after monies are credited for the so-called proposal to provide phased-in relief from Medicaid reform.

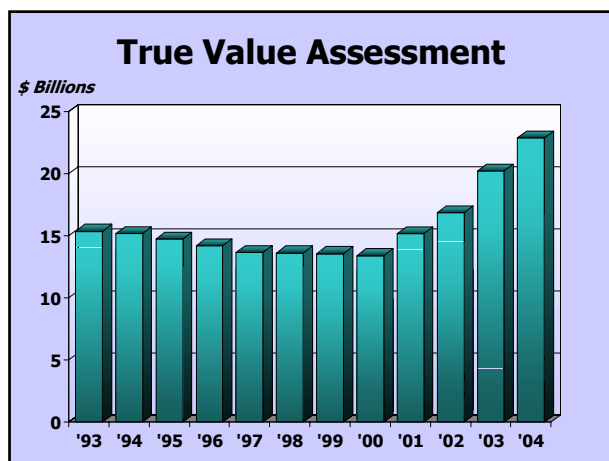
Also, health insurance costs for Dutchess County employees, while not a state mandate, continue to be driven by the skyrocketing industry costs over which we have no control. In 2004, health insurance costs will account for \$15.2 million of our budget, a 16% increase over 2003. This is why in 2004 the administration will put in place a health insurance task force to explore options and alternatives that can offer relief to our county taxpayers and our employees and retirees who contribute to the cost of their health insurance premiums.

Yet in spite of more than \$18 million in new 2004 spending for Medicaid, pension costs, other state-imposed mandates, health insurance, and employee salary increases, spending in 2004 has been held at \$342 million, an increase of just 3.6% over the 2003 modified budget. Regrettably however, the state mandated cost increases have still forced an average county property tax increase of 9.9% this year, or \$37 for the average home assessed at \$150,000.

Also, based on statistical data published recently by the State Comptroller and reflected in the graph below, Dutchess County taxes its residents 26% less per capita and spends 24% less per capita than the statewide county average. Dutchess County's indebtedness per capita is an astonishing 45% below the statewide county average.



We can also take pride that Dutchess County's outstanding indebtedness represents a mere 7.4% of the constitutional debt limit. This positions us for several major projects, most notably the multi-million dollar Jail expansion that Sheriff Anderson will be presenting to you, the most expensive County capital project ever.



True value property assessments reached nearly \$23 billion this year, representing the fourth year of significant growth following many years of decline in the 1990's. Of particular importance to Dutchess County property taxpayers, the county property tax levy totals only 21% of the County's constitutional taxing limit.

This past year the County was faced with managing the 103 vacancies created by the state's early retirement incentive offered at the end of 2002. Hiring restrictions implemented in 2002 continued throughout 2003 and allowed us to achieve the budgeted amount of \$3.5 million --- an ambitious target to accumulate through vacancy savings --- and I commend and thank my executive department heads and our elected officials in working with us and rising to the challenge, again sacrificing to do more with less in order to meet our service delivery objectives. My thanks and appreciation is extended to our dedicated and outstanding County government workforce for a job well done.

Unlike other counties during these challenging fiscal times, we have successfully managed to avoid laying off our highly valued county employees. One way County government has been able to control costs is through restructuring and realigning our workforce to work smarter. It is important to emphasize Dutchess County Government still employs fewer people today than it did a decade ago, although our mission is greatly expanded.

Moody's Investors Service continues to recognize Dutchess County's growing tax base, above average wealth levels, and our modest debt burden in assigning a December 2003 bond rating of Aa2. While the rating is slightly less than the County's previous level of Aa1, it nonetheless confirms the County's enviable standing in the Aa credit category. Dutchess County's rating is still higher than 83% of *Moody's* rated New York Counties with only two counties in a higher rating category.

Moody's has issued two separate special comment reports focusing on the credit pressures and fiscal challenges confronting all New York counties. *Moody's* September 2003 report concluded all New York counties would continue to face significant financial pressures in the medium term, and face possible rating downgrades. The report stated, "...fiscal pressure is driven by the most rapidly expanding expenditure – Medicaid - dictated by the New York State cost share allocation with New York counties." In addition to Medicaid, *Moody's* also cited dramatically higher State pension costs, double digit percentage increases for health benefit costs, and cash flows impacted by slowdown in state aid reimbursements and reductions in reserve positions. During the past year, *Moody's* has downgraded 10 counties, put three on a watch list and assigned a negative outlook to 17 more.

Moody's Bond Rating		
	Rating	# of Counties
	Aaa	1
	Aa1	1
Dutchess County's rating is still higher than 83% of <i>Moody's</i> rated New York Counties with only 2 counties in a higher rating category.	Aa2	7
	A1	7
	A2	13
	A3	12
	Baa1	12

Specific to Dutchess County's most recent rating, *Moody's* also indicated that because of the county's greater reliance on sales tax as a revenue source, we must **augment** the current fund balance level to a point that reflects a greater than average percentage (5% to 10%) of operating revenues. To achieve this requirement will demand continued fiscal restraint.

Changing circumstances made the Legislature's October 2003 vote to sell the county's share of annual tobacco proceeds from the National Tobacco Settlement a sensible and timely decision. Dutchess County had received annual payments from 2001 through 2003 which we used to offset the rising cost of Medicaid. However, dwindling tobacco sales and court rulings where tobacco companies are being forced to pay millions of dollars bring the potential for bankruptcy and could eliminate future payments.

With every budgetary decision we make, we must be mindful Dutchess County's current capital plan will add substantial new debt service to our operating budget each of the next five years. Securitization allowed us to reduce our debt for a net savings of \$5 million in 2003 and lessen the payments in anticipation of new debt being added. With little meaningful relief in sight for Medicaid costs and with future securitization opportunity questionable, because you acted promptly we took advantage of this unique window of opportunity.

Our Capital Program includes several project priorities based on the needs of a growing county - the Eastern Dutchess Center, the Jail expansion, a new *County Forensic Center*, the *Central Dutchess Water Pipeline* and our highway and rail trail infrastructure. Our reduction of debt service through securitization and the extremely low interest rates at this time provide a window of opportunity for the County to move forward with these important projects. However, bearing in mind the fiscal realities facing the County, we must move forward judiciously to preserve our long-term fiscal stability. We have already pushed some projects out to future years and will continue to prioritize and refine our costs and timeline in 2004 and beyond. Each of these initiatives support our core mission as a County government and each is critical to providing for the future economic well being of our government and of our community.

2003 was a year of change with the county's sales tax revenues. Not only did the County's sales tax rate increase by .75% effective June 1st, but also the exemption on clothing and footwear was in place for three months from March 1st through May 31st and was then repealed by New York State on June 1st. Due to our strengthened economy, we appear to remain on target to achieve our sales tax projection for 2003 of \$106 million, \$3.5 million more than the budget estimate of \$102.5 million. And as a cautionary note – No – that does not mean we have a \$3.5 million windfall to spend!

The County's sales tax estimate for 2004 of \$122.25 million projects an aggressive growth at 5% this year. This estimate based upon the renewed growth we are seeing in the economy - unemployment is down, consumer and business spending are rising, homes sales and mortgage refinancing are expanding. It is important to note, however, the growth in sales tax in 2004 resulting from the rate increase and exemption repeal **will not reoccur** in 2005.

Under Governor Pataki's budget plan announced last week, the state sales tax exemption on clothing purchases could not return in 2005 as approved last year by the State Legislature. However, his plan also proposes four tax-free weeks on clothing purchases worth \$500 or less, up from the two tax-free weeks currently permitted on purchases of \$110 or less that potentially could negatively impact our sales tax collections later in the year.

We found it necessary to draw down \$8.2 million from our reserves in 2003 primarily due to the Medicaid and other state obligations beyond our control. We must anticipate and plan for additional appropriations of fund balance in 2005/2006 for future employee contract settlements. Not yet knowing our final 2003 year-end fiscal position coupled with the uncertainties of the state budget impact, we must stabilize our "rainy day funds" in 2004 and begin to replenish them in 2005 and beyond. As noted by *Moody's*, replenishing our fund balance is critical to the financial stability of Dutchess County. The 2004 budget includes a modest \$1.678 million in appropriated fund balance, a step in the direction for long-term fiscal stability of our county.

Many of the fiscal pressures we faced in 2003 will continue to challenge us this year. I believe it will take strong leadership, political courage and a strong spirit of cooperation and partnering with our legislature, non-profit organizations, business leaders and community as a whole to deal with these challenges effectively. I remain optimistic that our national economy will continue to grow stronger this year.

I remain committed to our core mission to maintain quality services for our seniors, children, and families. We will also continue to implement new initiatives and strategies to streamline the delivery of these services. The strong fiscal stewardship demonstrated for over 12 years will continue to guide our thinking as we move forward with initiatives that are important to the quality of life for our residents.

I look forward to continuing the cordial, productive and businesslike climate we experienced with the Legislature during the 2004 budget process. The open communication and constructive dialog we have sustained over the last few months has been refreshing and welcome. Our ability to continue to build a quality relationship between the Executive and Legislative branches of government will rely on trust and communication.

Toward that end, I want to propose an expanded form of communication between the Executive and Legislative branches. Each month, in addition to routine consideration of legislative matters, we would like to plan some brief information sharing to the Legislature on specific programs and services county government delivers to our citizens. One way I would like to see this accomplished is for departmental staff, those who coordinate and deliver the services, to make brief presentations to you at the beginning of your monthly Board meetings. In some instances, we would plan to introduce you to members of the community who can provide testimony to you about the benefits and advantages of a particular program, and how it has impacted their lives. Mr. Chairman, I ask for your support in our effort to establish monthly presentations to you that will cover key topics in more depth than usual, and we would look forward to beginning these presentations in February.

Together this government has seized many opportunities in the recent years to improve the quality of lives for our residents, and we know there will be many more opportunities coming our way. Some of these opportunities are expressed in this document, but there will be those that come upon us in the course of the year. I am convinced that working together we will continue to open our *Windows of Opportunity* to ensure the economic security of Dutchess County and continually improve the quality of life for our residents.

Thank you for your courtesy, and May God Bless Dutchess County, our troops abroad and the United States of America.

William R. Steinhaus
Dutchess County Executive

January 26, 2004